ENVIRONMENT AND NATURAL RESOURCES COMMITTEE

Inquiry into energy services industry

Melbourne — 20 February 2006

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Mr A Pears, Director, Sustainable Solutions Pty Ltd.
The CHAIR — I welcome Mr Alan Pears, director, Sustainable Solutions Pty Ltd. All evidence taken by the committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, if you make comments outside the precincts of the hearing, they are not protected by parliamentary privilege. As you know Hansard records all our evidence, and you will receive a proof version within a couple of weeks. I will hand over to you. I think we have got half an hour — —

Mr HILTON — Three quarters of an hour.

The CHAIR — Three quarters of an hour!

Mr PEARS — I am not going to talk to you that long. Thank you very much. I have previously made a submission, and I have given you a hard copy of some PowerPoint slides, which I want to go through quickly, and some supplementary notes which expand on what is in the PowerPoint. Hopefully I can do that fairly quickly, and then I would be very pleased to help with any advice or information I can provide given that I have had a very long involvement in energy efficiency policy in Australia. In fact just recently I was on the evaluation panel for the New South Wales Demand Management Fund’s first round of giving away many millions of dollars to worthy efficiency projects, so I have been on a high lately.

Overheads shown.

Mr PEARS — This slide presentation is complementary to my original submission. What I wanted to do was first of all acknowledge that we are beginning to do some good work in energy efficiency around Australia. Our appliance efficiency program is one of the best in the world, although it is not without its faults. We are finally beginning to make serious progress with buildings, and indeed this year, for the first time ever, Australia will have commercial building energy regulations — not very strong, but they will be there for the first time.

We are seeing for the first time, particularly in New South Wales with its greenhouse gas abatement scheme (GGAS) and its energy savings fund and other mechanisms being driven by IPART, its regulator, some quite proactive things starting to come through. So it is not all doom and gloom; we are progressing. However, if you look at the Australian government’s energy data for Victoria and for Australia, you will see that energy growth continues. If we are being successful with all of these wonderful energy efficiency measures, we should actually be seeing a decline in energy use while economic growth continues, but we are not seeing that.

Something else is overriding the success of energy efficiency programs to date, and I would argue that that has a lot to do with the structures of energy markets and other markets, such as the building, appliance and other markets that all relate to energy in one way all the other. So we need to make changes in all these areas, far beyond what has been done to date. In fact I think an important point, which is reflected in what is happening in New South Wales, is that we need to move beyond information, demonstrations and mandatory minimum performance to positive incentives for people to really get going in this area.

Certainly in things I have participated in, in New South Wales recently, you really start to see some exciting projects coming out. I mean in New South Wales they are giving away thousands of free compact fluorescent lamps funded by the NGACs, the New South Wales gas abatement certificates. It is pretty interesting to see what you can do.

First of all, looking at energy markets, I am not here blaming generators, distributors or retailers for promoting cheap energy and not supporting energy efficiency. I believe the rules of the energy markets that we have put in place are wrong. They work against energy efficiency, so in a very competitive marketplace it is very difficult for an energy supplier to be able to do a lot to be able to support energy efficiency because they lose. The second point — and I think this is probably a fairly strong statement, but I can explain why I think this — it is my view that the Essential Services Commission basically has a conflict of interest with regard to energy efficiency, so Victoria’s regulator in a sense cannot really support energy efficiency in the ways that I think it should because of the objectives given to it by government and because of some of the interpretations of those objectives.

Third, even when we look at governments, we see that in fact governments do have vested interests in maintaining the existing distortions that work against energy efficiency. This is a challenge, because we certainly see within the Victorian government different groups with very different agendas with regard to energy efficiency and its interaction with the energy market. Essentially, given the first three points, I think it would actually be a miracle if...
energy efficiency were flourishing in the present environment that we have. I think we have actually done quite well, considering the kinds of barriers and forces at work.

This graph looks pretty small on the screen. There is a full page copy of this in your printed copies, if you want to look closely. This is an example of the kind of problem that a participant in energy markets faces. The Victorian gas distributors were actually not very keen to see the introduction of the 5-star house energy regulations. The Victorian government had McLennan Magasanik Associates conduct a detailed analysis to try to understand this. What it found was that the rate of return on their assets of their new gas pipes in greenfield areas was very sensitive to the gas consumption per customer.

At the moment the average gas consumption per customer in those areas is something like 60 to 70 gigajoules per year, and they are getting a nice healthy 14 per cent rate of return on those investments. The government’s 5-star regulations, if they are successful, would drop that very substantially down to 30 to 50 gigajoules. In fact I believe it could go below that with the increasing numbers of small households and the increasing utilisation of more efficient technologies.

If you are looking at a lot of smaller households they could be right down towards the left-hand side. What does this mean? There is a very real risk for a gas distributor that its rate of return on extensions of pipelines could be lower than its cost of capital, which is the dotted red line shown there. So the question I have is: why would a gas distributor actively support government policies that could turn its investments into a loser? That is the kind of problem that the energy supply sector face time and again. That is a real problem for energy efficiency when such powerful organisations are not actively supporting efficiency because they see themselves as losing.

If we look at the Essential Services Commission it operates under a set of objectives which were established by government and those objectives effectively are its terms of reference. I would argue that those objectives are a real problem. Firstly, the Essential Services Commission is described as an economic regulator yet when we look at its behaviour it behaves like a narrow financial regulator because if it was a full economic regulator it would be looking at life-cycle costs, it would be looking at social and environmental costs because a good economist does that. As you will see later on, the Essential Services Commission is constrained to not look at those things, so we have a problem there.

The second thing is that the Essential Services Commission is required to ensure the viability of the industries that it regulates. Energy efficiency is not an industry that is regulated by the Essential Services Commission, so if there is a situation where the benefit to the energy efficiency industry leads to a disbenefit for the energy supply industry which is a regulated industry, the regulator must act in the interests of the industries it regulates. That is the conflict of interest, as I see it, that the regulator faces.

Third, if we look at the way the regulator interprets its key objective of acting in the long-term economic benefit of Victorians, the way it works is that essentially it seems to have decided that if it can deliver us low energy prices — that is, price per unit of energy — and make sure that there is enough expansion of infrastructure to satisfy the growth that is predicted, that is really satisfying its objectives. My point would be the price of energy is not what it is about at all. The total cost of supply of energy services, your total bill and the indirect impacts and costs of the supply of it, is what the real economic issue is. As such, the way the regulator is interpreting long-term economic benefit for Victorians is very narrow, and again that works against energy efficiency.

Lastly, again a very clear objective that the regulator must work to, is that it must consider the social and environmental legislation. The regulator has chosen to interpret that as meaning that it will not consider social and environmental issues that are not in legislation. The reality is many social and environmental issues of enormous significance do not get into legislation until a long time after they have been recognised as big issues and certainly in the context of an energy regulator that is influencing long-term capital investment, it is logical that it should be picking up these issues early, not necessarily acting decisively but at least signalling them as issues, tracking them and doing something about them. That is really my argument as to why the Essential Services Commission is a problem.

If we look at energy markets, at the moment transmission and distribution charges are blurred and in fact the coal-fired power stations do not actually pay transmission charges. Why is this? If I were the Victorian government I would be doing this, too, because if I charged, say, a New South Wales generator a cent a kilowatt hour to deliver power to Melbourne, then all of the brown coal power stations in Latrobe Valley would increase their price by 0.9
of a cent because they would essentially be able to still undercut the New South Wales generator. In order to make the wholesale market work, a Victorian government in a sense has to discourage proper pricing of transmission because it wants competition to occur as though the Latrobe Valley power stations and the New South Wales power stations and even the Queensland power stations were all sitting next to each other; otherwise they will just simply ramp up the prices. If we want to keep prices low — which you do if you can — then there is a problem there. The Victorian government actually has an interest on behalf of Victorians to distort pricing away from proper pricing of transmission and in fact distribution in rural areas.

Likewise the electricity industry is a very capital intensive industry so its preference is to have large fixed charges and small marginal charges because it has got a lot of sunk capital that it is trying to fund and it wants to minimise its risk. For example, a Victorian household is paying $160 a year in fixed supply charges for electricity — that is nearly half of my electricity bill. We have a problem that the electricity industry’s natural drive is towards high fixed charges and preferably declining block pricing because the more you use, the cheaper you are to look after. That suits those industries, but again that works very much against energy efficiency and in fact in the 1980s when I was in the Victorian government we went through a lot of work looking at fair pricing structures and concluded that relatively low fixed charges and flat tariffs, or even inclining block tariffs like we are getting in the water supply area now, were the right kinds of way to go. We are moving away from that now on ‘rational economic grounds’.

The other problem is best reflected by trying to put yourself in the position of a middle manager in, say, an electricity retail business. Let us say I am there; when I look at selling an extra kilowatt hour of electricity my business will gain 12 cents and the extra cost of supplying that electricity will be quite small — a few cents. I make a lot of money. On the other hand, if I reduce sales by a kilowatt hour by selling someone a compact fluorescent lamp, or whatever, we lose 12 cents revenue, but a lot of our costs are fixed so we have not avoided that cost. We actually lose.

It is true that eventually when we get to a point of investing in infrastructure we will start to see some pretty powerful signals. The problem is that investment in infrastructure is happening under other organisations and it is happening in bits and pieces so there is never ever a kind of overwhelming signal being sent to a sales manager in the middle of an electricity retailer. We have a serious problem here that under the structures we have in place these people lose if they sell less power, and they gain if they sell more. That is the electricity market.

This is a graphic that was in my original submission and this is really looking at other markets in relation to — if we think about a customer buying energy-consuming equipment we see that they are influenced by a whole lot of different players: the plumber, the builder, the lighting shop, the electrician — all these people — and the landlord. I think it is very important in terms of policy to ask the question, ‘What incentive does any of those other people, other than the householder, have to help the householder buy a more efficient product or service?’.

In reality what we find is that many of them actually have an interest in selling something that will waste more energy. They are not doing this because they think wasting energy is a good idea; they are doing it because they want to sell more of what they have. If you own an appliance store, you want to sell a bigger, more expensive airconditioner. If you own a lighting store, you want to sell a lot more lights. It is quite handy to sell the kind that burn out frequently and people will come back and buy globes to replace them as well. All those kinds of things are driving this system which in fact is very powerful.

As we face problems of any individual or organisation in the energy sector capturing the kinds of savings that are to be had, the same thing applies here in this sense that an appliance seller does not get any benefit from me saving electricity on my airconditioner. We have a problem that appliance stores do not sell insulation, shading and a whole lot of other things like that, so in a sense they cannot get a percentage on those things. Over time we could change the structure of this industry. Organisations like mecu, which was on before, easybeinggreen and others are starting to bring together all those multiple benefits so they can get somewhere. But there is a real issue to think about.

What to do? First of all we have to revise the regulator’s objectives and provide clearer guidance to the regulator on how to interpret its objectives to support energy efficiency. I went into that long enough. Second, recognising the fact that it will take a long time to unravel the distortions, imperfections and biases of the energy market and that a lot of people have a lot of sunk capital and made a lot of commitments based on the signals they have been receiving from the last decade, we have to move to what I believe economists call the second-best approach. If you
cannot immediately remove the distortions, what you do is provide incentives and assistance to the technologies and industries that are adversely affected until the distortions are removed.

The other thing we need to do — and I have gone into this in the background notes but not here — is that the whole energy market has no key performance indicators on delivering energy efficiency. Energy efficiency is an optional add-on extra so it does not matter if you do not deliver on it. We need to start building in requirements for real outcomes, as they have in New South Wales with their greenhouse gas abatement targets and benchmarks for electricity retailers. We need to measure people against that performance. If they do not deliver, they have got to be made to. It is about accountability. If we are serious about energy efficiency, we have to have accountability. It is as simple as that.

Nemmco, the national electricity market manager, publishes what it calls a statement of opportunities each year in which it identifies the predicted load growth in each area and identifies the opportunity for you to build power stations and powerlines and make money. Nemmco should be required to publish an annual demand-side statement of opportunities showing us where the grid system is getting tight and where electricity distributors, retailers and transmission agencies should be prepared to pay a premium for savings because they will avoid infrastructure costs. We have none of this information. Nemmco has a clear job to do there.

Next, and this sounds a bit vague, a national cooperation policy framework is needed. When we look at how energy market reform has been done it has essentially involved chopping up large organisations into small ones. In many ways that can be good. But the problem is now it means that an individual participant cannot capture the full benefits of what they do. We are starting to see retailers like AGL and Origin investing in generation and things like that because they are trying to capture more of the benefits and reduce the risks they face. In a sense what that flags is with energy efficiency often the benefits accrue to someone other than the person who makes the investment.

That means we have to form ways so the different groups in our society can offer each other shares of benefits and negotiate deals and things like that so we can all be winners. The downside is that if this is not done well, it could be described as collusion or anticompetitive behaviour. We actually need, I believe, clear frameworks, guidelines and policies to help organisations see how they are allowed and in fact are supported to do these things so they can act in the public and their own interests but not be anticompetitive.

As I said earlier, we need to move beyond mandated minimums because mandated minimums tend to provoke a kind of compliance mentality that says we are good enough — for example, the 5-star regulations in Australia are often painted as draconian and very extreme, but an international comparison recently done on this shows that most countries with similar climates to Australia are mandating the equivalent of 6½ to 8 stars. Rather than just driving that, because I think it would be very difficult, we need to give people incentives to excel. There are some fantastic opportunities there; it is a matter of driving them. As I say, New South Wales has gone down this road a lot further.

Lastly, governments have a very important leadership role here because, particularly with issues like climate change, it is very difficult for individuals to even understand what is going on let alone act. Often they cannot capture the benefits of their actions. A lot of those benefits will accrue over the lifetime of my children, let alone my business in the next few years. That is my presentation. I hope it was of use and gives some perspective. I am happy to help you in whatever way I can.

Mrs COOTE — First of all I should book up for one of your courses. I think it would be very interesting. I was very encouraged to hear your opening line, which was that we are beginning to do some good work, but then I was seriously depressed with every other word you uttered.

Mr PEARS — I thought I had to balance it.

Mrs COOTE — You have been around government and looked at it from all sides for a very long time. You know that some of the suggestions you have made here are going to be politically unpalatable, forget about any political side. What can any government do to sell the story? You talk about regulation, incentives and some of the issues, which I think are valid from the descriptions here of them not being useful because they are not economically viable, but in your opinion what is something any government could do to make certain we made a major change within our working lifetimes? I do not mean a political working lifetime; I mean a normal lifetime.
Mr PEARS — I really do think that positive incentive along with demonstration of what is possible is a very powerful thing. New South Wales, for example, has got an energy savings fund of $40 million. New South Wales people probably spend $8 billion to $10 billion a year on electricity, so in relative terms this is a trivial amount of money, but for an emerging industry and for people to receive a positive incentive it is very big. Wearing another hat under my work with the business council for sustainable energy, we are developing an incentives package that we hope the Victorian government might adopt.

If you were a manufacturer of fridges, let us say, if you have a very efficient fridge, you would attract a benefit equal to the lifetime greenhouse benefits plus a bit of credit for the avoided electricity supply capacity that you are helping to avoid. That produces a benefit to the fridge manufacturer of maybe $30 to $80. That does not sound a lot, but we have to keep in mind that the manufactured cost of our $1000 fridge is only $300. That $30 can cover retooling, upgrading to a higher efficiency compressor that costs $10 extra — all those things. It can transform their business.

Mrs COOTE — So you actually sending the incentive back to the supplier?

Mr PEARS — Yes.

Mrs COOTE — Because really what we are talking about from what we hear here is to give the incentive to the purchaser. You are actually saying we should turn that around?

Mr PEARS — It is useful to give some incentive to purchasers because that creates market pull, but in crude terms if you are giving a dollar of incentive somewhere, it is worth three times as much if you give it to the manufacturer as it is if you give it to the customer. Also the manufacturer can use it anywhere in the chain. For example, appliance salespeople are paid commissions to sell products, so the month when they are getting a big commission to sell a lousy — sorry, I should not say ‘lousy’ — inefficient product, they will criticise the energy label as rubbish, meaningless and wrong, because they are trying to sell something that does not look good on that criterion.

If you give the money to the appliance manufacturer, they can pay a commission to the salespeople that makes a big difference to their behaviour. Giving money to a customer does not do that. What we have to appreciate when we are thinking about incentives is that — again going back to my model — there are a whole lot of players in this system. An effective incentive means you ask yourself the question, ‘Does every person in that chain want to help me buy an efficient product or do they want to help me buy something else?’ and by getting the incentives further up the chain you are making that more possible. I am not saying that should be to the exclusion of incentives to customers because market pull is important, particularly when a government gives an incentive; a lot of people take that as a government endorsement. They may not even claim the incentive, but they will still do it. There is a very powerful effect there; it is not either-or. When I do the numbers there is enough to give a bit to both directions.

Mr HILTON — Thanks for your presentation, Alan; it was very interesting. We have raised this issue of conflict of interest with the major utility companies, and an argument they have come up with is that they try to encourage people to use less energy because it enables them to defer any additional capital expenditure which they may have to bring on stream sooner if people still carried on using the same amount. Does that resonate with you at all?

Mr PEARS — No. It is a great theory.

Mr HILTON — You would dispute that?

Mr PEARS — What I would say is that at an overall, strategic, senior management level at certain times when investment is looming in the near future — keeping in mind the high discount rates they apply to these things — it is a factor. However, to the individual decision-makers within the organisation the overall balance is generally towards ‘sell more’. The other thing to keep in mind is that a lot of them are actually not trying to encourage people to use more energy, they are trying to grow their market share relative to other retailers. In that sense they know that getting people onto monthly direct debit, where you do not even know how much you are using, works well. They know that offering you a declining block tariff if you are a large customer, which are the ones that are most profitable, will make you more interested. The market research shows those things.
Likewise retailers in general are reasonably happy to promote green power because they make a profit out of it. Green power is okay. It comes back to the problem that when you are really trying to drive energy efficiency, there are arguments. Another example — in its presentation to the Productivity Commission’s inquiry into energy efficiency the Energy Retailers Association of Australia said, ‘Look, we do not want all this time-of-use pricing to send people signals about shutting off their airconditioners and things like that; we just want the right to control their airconditioners’.

If you read policy documents about managing peak demand, there is very little interest in using energy efficiency to manage peak demand, and the question is why? The answer is because energy efficiency saves energy at times other than peak demand as well as during peak demand periods. To optimise the profitability and long-term success of an energy supplier, what you want to do is have a flat demand so everything is fully utilised — and that is what the regulator rewards — and you want it growing nice and slowly so that you can invest in increased capacity, for which you get more rewards, and you want to manage all of that tidily. That is why energy efficiency is not popular as a peak demand management strategy when in fact it is a very powerful one.

Mr HILTON — We have received evidence — and I forget the detail — that in California there is an imperative that the energy companies have to reduce the amount which is being used by their customers. Are you familiar with that?

Mr PEARS — I am not very close to the Californian situation, but the issue there clearly was very coloured by the serious problems they had with price blow-outs and demand in the early 2000s. I have actually got a background on my computer showing the new lighting system on the main bridge coming into Los Angeles which uses high-efficiency lighting. This whole enormous bridge is lit by 3 kilowatts of light-emitting diodes, which is equivalent to only 30, 100-watt light globes, and they have got photovoltaic panels offsetting fully the power consumption of these lights. That was their way of getting around an absolute ban on night-time lighting of public buildings and so on.

California has gotten pretty aggressive and has a long history of real success in driving market structures to achieve efficiency. The Lawrence Berkeley Laboratory, which is based in California, has done a lot of complex research in these areas, and I am sure your research staff could look up its web site.

Mr HILTON — Is the incentive, then, some sort of penalty which is levied on the energy companies unless they achieve certain objectives?

Mr PEARS — I am not sure about California. If we look at New South Wales, though, all electricity retailers in New South Wales have a greenhouse per capita benchmark they must meet or pay the $15 a tonne penalty. New South Wales has a very clear driver that seems to be starting to work, although I think in the early years it was a fairly weak target.

Ms DUNCAN — What is your view on the introduction of the national emissions trading scheme or carbon tax?

Mr PEARS — For energy efficiency those measures will have almost no effect other than on very large emitters, the reason being that only large emitters will be directly involved in emissions trading. They are aiming at the top 200 or 300 emitters, because otherwise it will get too complicated. Eighty five per cent of household emissions and 90 per cent of commercial sector emissions are from electricity use. What we will see is that our electricity suppliers will be involved in emissions trading, and they will pass on the cost of buying permits to us, plus a profit margin, and we will see quite a small increase in our electricity price.

I pay 14 cents a kilowatt hour. At $10 a tonne that would add 1.5 cents, so it would add 10 per cent to my electricity unit price, but 40 per cent of my total cost is a fixed charge. I am seeing a relatively small change in something which is a very small component of my input costs. Typically half a per cent of the input costs of the commercial sector is non-transport energy, so you are looking at 5 or 10 per cent of half a per cent as the impact on their business. You are not going to see big signals.

Furthermore, it is my view that because the energy market structure encourages growth in organisations that sell electricity, what we will see is that electricity generators will prefer to sell more electricity but reduce its greenhouse intensity by burning gas or mixing renewables in with them or whatever. They will meet their targets that way rather than encouraging people to use less electricity, because if people use less electricity, someone is
going to have to shut down a power station. My view is that emissions trading will influence large emitters to become more efficient, absolutely, but the bulk of our greenhouse gas emissions from energy use is coming from a whole lot of small and medium emitters that it might not affect at all.

Ms DUNCAN — And carbon tax?

Mr PEARS — In fact most of us will see emissions trading as a carbon tax. Because we will see it as a little bit extra on our gas or electricity price, it will be just like a carbon tax, so it will not matter.

Ms DUNCAN — Isn’t a carbon tax a way of better reflecting the total cost of energy cost supply?

Mr PEARS — I am not arguing against it. I suppose I should preface this by saying that I believe that emissions trading or a carbon price of some sort is really important from a broad policy perspective. We need to keep in mind that it will have very little effect for a lot of energy users, although it is an important part of the policy mix, yes.

The CHAIR — I suppose I am trying to get to a priority listing. If you were the government and you could do only one thing, would it be to pull the Essential Services Commission apart and repackage it as you would like to see it, addressing the four issues that you see that are wrong or could be done better? Do you do that, or do you go down the New South Wales path with its fund?

Mr PEARS — The Energy Savings Fund in New South Wales is based on a kind of bidding system. While I think that bidding has some value, I think that the proposal I have been working on with incentives that are linked to the benefit to the community, if you like, is actually going to be more effective than most of the bidding stuff.

I would go for an effective incentives system, the reason being that I believe that the forces at work blocking reform of the Essential Services Commission’s rules are very strong. I also believe that as we move towards a national regulator we will actually have an even bigger battle reforming regulatory frameworks, because you are going to have to get national agreement. While I believe that is incredibly important, if I were in government I would say, ‘That is a hard one’, and I would go for something which mobilises all of these people who influence energy use but do not pay the bills — the manufacturers, the electricians and all those people — and encourages people in the street to make good choices, because I believe a lot of businesses and people want to do good things, and that that can then mobilise the momentum to start putting pressure on the regulatory systems.

The CHAIR — Because most of our manufacturing is offshore, why is it so hard to stop inefficient appliances coming in?

Mr PEARS — In the areas where we have introduced energy labels and reasonably good mandatory energy performance standards we are starting to do quite well. The MEPS for fridges in Australia at the moment are now equal to the US 2001 standards. Mind you, the best Chinese fridge available is twice as efficient as the fridges we have, but we will get there! We have a problem because the best fridges from China get 7½ stars on our 6-star rating, so they do not get any market recognition, and they are “off the scale”. Governments now working on changing the scale so I hope this problem will soon be overcome.

The CHAIR — Why do we still have inefficient products?

Mr PEARS — Most of the products that should be managed do not have energy labels and are not regulated. Halogen lights have no information and no regulation. For plasma TVs, which use more electricity now than the family fridge, we have no information. The problem is that government is years behind. What is happening is that the first generations of all these products are being sold to unwitting customers, then we will have to try to catch up and sort it out. Again, I have proposed — unsuccessfully — to the commonwealth that we should be including in electrical approvals and gas approvals requirements that even if we do not have an energy standard, in order for suppliers and manufacturers to get approval to sell in Australia they should show some attempt to be efficient, because we need to get this on the agenda of the designers of the equipment.

Usually if the designer thinks about it, they can achieve high efficiency at no cost, but they do not think about it. Again, we have to drive the message back up, and we have to stop them even getting the inefficient product on the market. That is how I would do it.
Ms DUNCAN — I am not sure if you can help me with this, but it has been suggested to me that there is a really good solar hot water service sold overseas, but to get it sold in Australia the Australian standards we apply in this instance seem to be higher than they are in Europe — for example, the test on these panels in Europe is to throw ice at them.

Mr PEARs — Is this hailstones and things?

Ms DUNCAN — In Australia we test it by throwing ball bearings at them. They do not stand up to ball bearings, but presumably they stand up quite well to hailstones. I do not know when we had our last shower of ball bearings. What is that about?

Mr PEARs — The whole issue of trying to standardise standards is a longstanding process, and we all chug along trying to do it — for example, we do not still have standardised building energy regulation around Australia, which you have probably heard about ad nauseam. To be fair, on the solar hot water side one of the people at Sustainability Victoria is on the ISO standards committee, and there are genuine attempts to try to improve international standardisation of these products. You come back to the problem that historically they have done different tests. I have been on standards committees, and you say, ‘This is a problem; what do we do? Ball bearings! They are like hailstones; we will do that’, and you do it. It is only when you have lived with it for a while and then discover that someone in another country has a different one that you then start the process. The problem we have is that most work for Standards Australia is funded by the companies; very little is funded by government now.

I used to be the consumer representative on building energy standards, but all of that funding was removed. We have a serious problem that both Australian standards and international standards are very slow to respond to the problems that are identified, unless substantial companies feel they are losers and want to drive it fast and allocate resources to fixing it. That is the kind of problem.

Again, we used to have the State Electricity Commission and the Gas and Fuel Corporation investing very substantial resources in the public interest into developing and supporting Australian standards. When we restructured energy markets we just forgot about all that, and this is part of the price we pay. Does that help?

Mr BENJAMIN — Do you have any thoughts on the roll out of interval meters?

Mr PEARs — One of the dangers of the roll out of interval meters is if we roll out ones that are too crude. Again, another victim of energy market reform was that in the early 90s the State Electricity Commission, the Gas and Fuel Corporation and Melbourne Water were working towards the development of an integrated remote-reading meter. To me that is the point. If you are going to have a meter in a house, it should measure as many things as possible.

It should automatically send signals for billing and it should allow provision of information to the customer so that they can manage things or even set up a computer to manage them or whatever. I think it is important to go for the right meter. An important thing to look at is that the cost of really powerful metering systems is falling through the floor very rapidly as technology improves and as we start to realise that if you do order a million of them the price goes down a lot. Rather than, as I have seen a lot, people saying that it will cost a lot of money, I think we should actually step back from it.

We should say: what is our ideal interface between the customer and the system? How can we then make that work and get it as cheap as possible and roll it out in sensible ways? For example, there are new houses or where meters are being replaced, or high energy users in summer, if we want to manage airconditioners — you can target them and roll them out to the places that make the most sense.

The CHAIR — Thank you.

Witness withdrew.